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INFO RUCNASE/ASEAN MEMBER COLLECTIVE
RUEHBY/AMEMBASSY CANBERRA 1080
RUEHBJ/AMEMBASSY BEIJING 1824
RUEHKA/AMEMBASSY DHAKA 4833
RUEHNE/AMEMBASSY NEW DELHI 4628
RUEHUL/AMEMBASSY SEOUL 8168
RUEHKO/AMEMBASSY TOKYO 5729
RUEHCN/AMCONSUL CHENGDU 1427
RUEHCHI/AMCONSUL CHIANG MAI 1522
RUEHCI/AMCONSUL KOLKATA 0285
RUEAIIA/CIA WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUEKJCS/DIA WASHDC
RUEHGV/USMISSION GENEVA 3609
RHEHNSC/NSC WASHDC
RUEKJCS/SECDEF WASHDC
RUEKJCS/JOINT STAFF WASHDC
RUCNDT/USMISSION USUN NEW YORK 1483
RUEHBS/USEU BRUSSELS

C O N F I D E N T I A L SECTION 01 OF 03 RANGOON 000285

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TAGS: EAGR ECON EFIN PREL PGOV BM
SUBJECT: BURMA: RICE EXPORTS TO CONTINUE IN 2008

REF: RANGOON 075

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Classified By: Economic Officer Samantha A. Carl-Yoder for Reasons 1.4
(b and d)

¶1. (C) Summary. Although it has yet to make an official announcement, the Burmese Government has decided to allow further exports of rice in 2008, and plans to grant export licenses for an additional 300,000-400,000 metric tons through December, totaling 800,000 metric tons by year end. Government officials profit from Burma's rice exports, but also carefully control them to prevent domestic prices from rising to levels that could lead to internal political unrest. They have implemented policies, such as limiting the number of tons an exporter can purchase at one time and issuing export permits for small quantities, to prevent price hikes. The export policy benefits all parties: military-owned Myanmar Economic Corporation and exporters earn huge profits on rice exports - almost \$150 per ton - and farmers cover their rice production costs by selling surplus rice. The ones that suffer are Burma's poor, who already spend more than 75 percent of their income on food. Instead of allowing transfers of surplus rice to needy areas, the GOB chooses to profit from rice exports. Burma exported approximately 350,000 metric tons of rice between January and March, primarily to markets in Bangladesh, Sri Lanka, and Africa. End Summary.

Summer Rice Crop Good Enough to Sell

¶2. (C) In 2006 and 2007, Burmese rice exports were

negligible - less than 100,000 metric tons combined - because of low crop production and unstable domestic prices. However, 2007 rice production was higher than expected, producing an estimated surplus of 400,000 metric tons. Rather than allow domestic rice prices to drop, which would harm the ability of farmers to cover their production costs and lead to possible reductions in future rice production, the GOB announced that it would permit private companies to export the 400,000 metric tons during the first quarter of 2008 (Reftel). Although the GOB did not hit its target, it allowed select (and well-connected) trading companies to export 350,000 metric tons of surplus rice to markets in Bangladesh and Africa, SGS Consultants Managing Director U Kyaw Tin told us.

¶3. (C) Although the Burmese Government has yet to make a formal announcement, it will allow further exports of rice in 2008, SGS Agricultural Manager Aung Kyaw Htoo declared. U Tin Win, President of the Myanmar Rice Millers' Association, confirmed this report, stating that the senior generals told the rice producers and exporters during the Armed Forces Day ceremonies (March 27) to prepare for additional exports. While the GOB has yet to issue new rice export licenses, it has extended the validity on several existing licenses through June 30. Top rice exporter Aye Yar Shwe Wa Company, owned by Aung Thet Mann, has already agreed to ship 50,000 metric tons of rice to Sri Lanka in May and is looking to export more.

¶4. (C) The GOB predicts that the summer crop (which will be harvested during late April/early May), typically a low producing crop with inferior quality rice, will be abundant this year, with higher quality rice. U Kyaw Tin and Aung Kyaw Htoo, who inspected summer rice crops in Irrawaddy and Bago Divisions earlier this April, agreed that this year's

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crop should produce much higher quality rice yields than previous years. Farmers have become creative, building new water pipes that pump double the water using the same amount of fuel, which helps account for the higher-than-expected yields. The GOB expects the summer crop to more than meet local demand, with a surplus of up to 200,000 metric tons available for export, U Kyaw Tin stated. The regime also predicts that the monsoon crop, which will be harvested in October/November, will also be a bumper crop that should produce an additional surplus of 200,000 metric tons. If all goes well, the GOB could allow exporters to sell another 400,000 metric tons of rice this year, he concluded.

Affect on Local Prices?

¶5. (SBU) When asked whether rice exports affected local rice prices, U Kyaw Tin admitted that exports place some pressure on prices, but noted that average domestic rice prices have stayed stable for the past three months and are lower than August 2007 prices. He attributed the lower prices to higher supplies of rice throughout most of the country, as the early 2007 rice harvests were devastated by floods. Prices in certain markets, including Rangoon and Mandalay, have increased by up to 10 percent over the past three months due to higher fuel and transportation costs, U Kyaw Tin acknowledged. While rice prices in some Burmese have increased, rice prices are still far below world market prices, which are hovering around \$800 per metric ton.

Burma: Domestic Rice Prices, per Kilo
In Kyat

Month	Ehmata Rice	Percent Change	Superior Rice	Percent Change
August 2007	383	--	517	--
Dec. 2007	332	-13.32	472	- 8.71

Jan. 2008	289	-12.95	420	-11.02
Feb. 2008	295	2.08	412	- 1.91
March 2008	287	- 2.71	419	1.70

Source: Foreign Agricultural Service, March 2008

¶6. (C) The Burmese Government will carefully monitor rice exports to ensure that domestic prices do not increase, Aung Kyaw Htoo explained. He noted that the GOB only issues export licenses for small amounts, usually 20,000 metric tons or less, which acts as a price control. Additionally, Department of Agriculture officials warned the top export companies against buying large quantities of rice at one time, to prevent any fears of rice shortages.

¶7. (C) U Kyaw Tin acknowledged that there are rice shortages in several areas of Burma, including the Chin Hills, northwestern Sagaing Division, and parts of Rakhine state. However, GOB regulations prevent States and Divisions with rice surpluses to ship rice to other regions of the country. In order to get rid of the rice surplus, one must export internationally, rather than meet the needs of the people at home. U Kyaw Tin commented that there was no incentive for farmers to sell their rice to underserved areas of Burma, as the poor people, who usually subsist on inferior quality rice, could not afford to pay higher Ehmata rice prices. The only way farmers can recover their production costs is to export the rice on the world market, he explained.

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Increasing Profitability

¶8. (C) As world rice prices continue to skyrocket, now hovering close to \$800 per metric ton, Burmese rice is becoming more attractive on the world market and countries such as Sri Lanka, the Philippines, and Bangladesh are looking to buy rice from Burma. Now that world prices of rice have doubled, Burmese exporters are looking to make substantially higher profits, U Kyaw Tin declared. Currently, exporters purchase rice from Regional Commanders, who are responsible for accumulating surplus rice stocks from farmers (Reftel), for \$350 a ton, but turn around and sell it for \$500 a ton - well below the market price. Even with increased transportation and freight costs, currently set at \$50 a ton from Rangoon, exporters may pocket a profit of \$100 per ton. The winners from rice exports are the Regional Commanders and the exporters, U Kyaw Tin acknowledged. Local farmers may earn enough money to cover their costs and encourage increased production, but do not become rich by producing rice.

Comment

¶9. (C) Burma's rice export policy shows yet another side of the government's dysfunctionality and poor grasp of economics. Rice prices in Burma are still considerably lower than world prices because the military dictates the price. If Burmese rice farmers were free to sell on the international markets, local prices at this time would be considerably higher. This would in turn result in increasing hardships on the poor, particularly those in the urban areas, already struggling to feed their families. It could also lead to renewed protests against the military. Thus the military must be cautious in taking advantage of the current food price hikes. They may profit in the short-term, but could further increase popular resentment in the medium to long-term. Additionally, if rice prices remain high, more rice will be smuggled out of Burma to sell on the world market. We wonder how long the government will be able to profit handsomely from its obtuse rice export policy.

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